

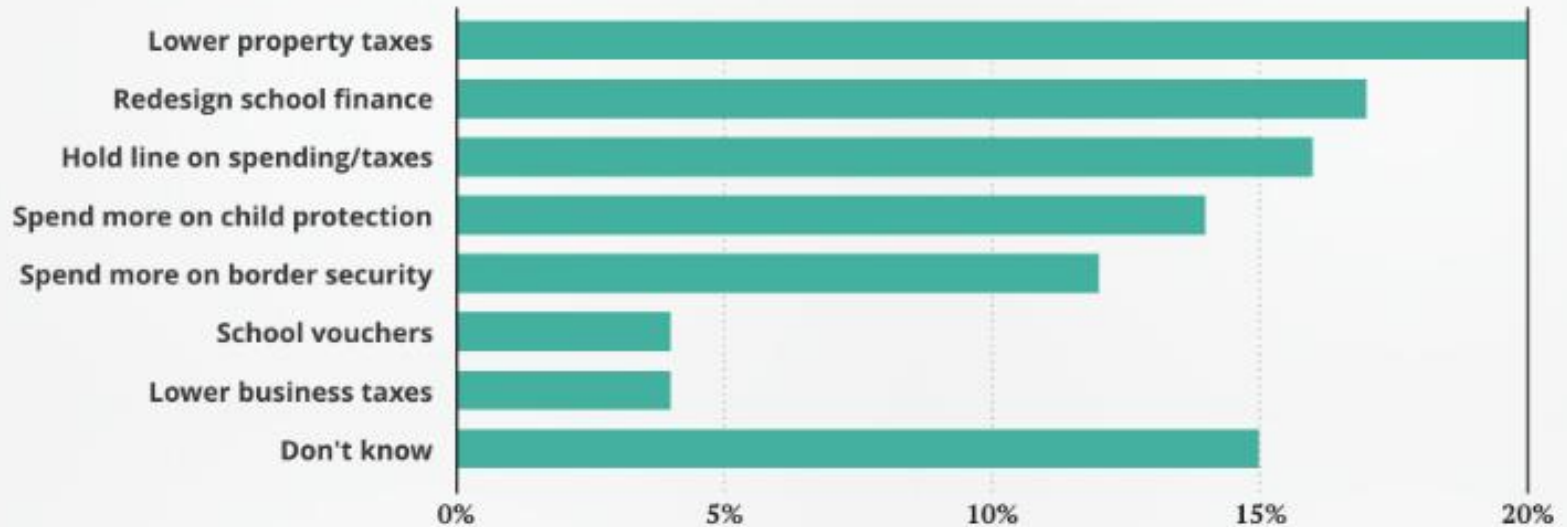
Legislative Update

TASBO ANNUAL CONFERENCE

MARCH 1, 2017

UT/TT POLL

What should be the Legislature's top priority?



*Numbers may not add up to 100 due to rounding.
University of Texas/Texas Tribune Poll, February 2017
Margin of error = +/- 2.83 percentage points*

 Emily Albracht

The Speaker's General Areas of Interest

- Investing in the state's mental health system
- Fixing the school finance system with reduction of recapture
- Reforming the child welfare system
- Higher education accessibility
- Infrastructure support

Top Priorities of Lt. Governor Dan Patrick

- **SB 1 – 2017 Budget Proposal** – [...] we will pass a balanced budget.
- **SB 2 – Property Tax Reform** – Texans pay the sixth highest property taxes in the nation and [...] This must change.
- **SB 3 – School Choice** – There is broad support for legislation to ensure that every parent has the option to send their child to the school they believe is best for them.

Source: https://www.ltgov.state.tx.us/wpcontent/uploads/docs/2017_Top_Legislative_Priorities.pdf,

Senate Education Committee

- Sen. Larry Taylor (Friendswood)
- Sen. Eddie Lucio, Jr. (Brownsville)
- Sen. Paul Bettencourt (Houston)
- Sen. Donna Campbell (New Braunfels)
- Sen. Bob Hall (Canton)
- Sen. Don Huffines (Dallas)
- Sen. Bryan Hughes (Mineola)
- Sen. Kel Seliger (Amarillo)
- Sen. Van Taylor (Plano)
- Sen. Carlos Uresti (San Antonio)
- Sen. Royce West (Dallas)

Senate School Finance Workgroup

- Sen. Taylor (Friendswood)
- Sen. Bettencourt (Houston)
- Sen. Birdwell (Granbury)
- Sen. Hancock (North Richardson Hills)
- Sen. Hinojosa (McAllen)
- Sen. Seliger (Amarillo)
- Sen. West (Dallas)

House Public Education

- Rep. Dan Huberty (Kingwood)
- Rep. Diego Bernal (San Antonio)
- Rep. Alma Allen (Houston)
- Rep. Dwayne Bohac (Houston)
- Rep. Joe Deshotel (Beaumont)
- Rep. Harold V. Dutton, Jr. (Houston)
- Rep. Lance Gooden (Terrell)
- Rep. Ken King (Weatherford)
- Rep. Linda Koop (Dallas)
- Rep. Morgan Meyer (Dallas)
- Rep. Gary VanDeaver (New Boston)

House Appropriations Subcommittee on Education

- Rep. Ashby (Lufkin)
- Rep. Giddings (DeSoto)
- Rep. González, M. (Clint)
- Rep. Howard (Austin)
- Rep. Koop (Dallas)
- Rep. Raney (College Station)
- Rep. VanDeaver (New Boston)

State Revenue Constraints

- The Comptroller's Biennial Revenue Estimate (BRE) currently estimates **\$104.9 billion** in funds available for general purpose spending for the 2018-19 biennium.
- After months of lackluster sales tax and oil and gas revenue, the Legislature no longer has the estimated \$6 billion balance from the end of last session.
- The smaller beginning balance (**\$1.5 billion**) coupled with only slight increases projected in state revenue for the 2018-19 biennium and the \$4.7 billion highway fund sales tax transfer set to occur for the first time this session allows the state very little wiggle room for any new funding increases to the budget.

Chairman Zerwas (House Appropriations) Comments on Budget Process

- “Challenged...” related to state budget
- \$1.5 billion in new funding for FSP reflection of local value increases, whether adequate is a different conversation
- Formulas too complicated, great opportunity to have conversation, but school finance may need an “undistracted” period of time (special session)
- “Good or bad” the state Supreme Court gave us a pass

Proposed State Budgets

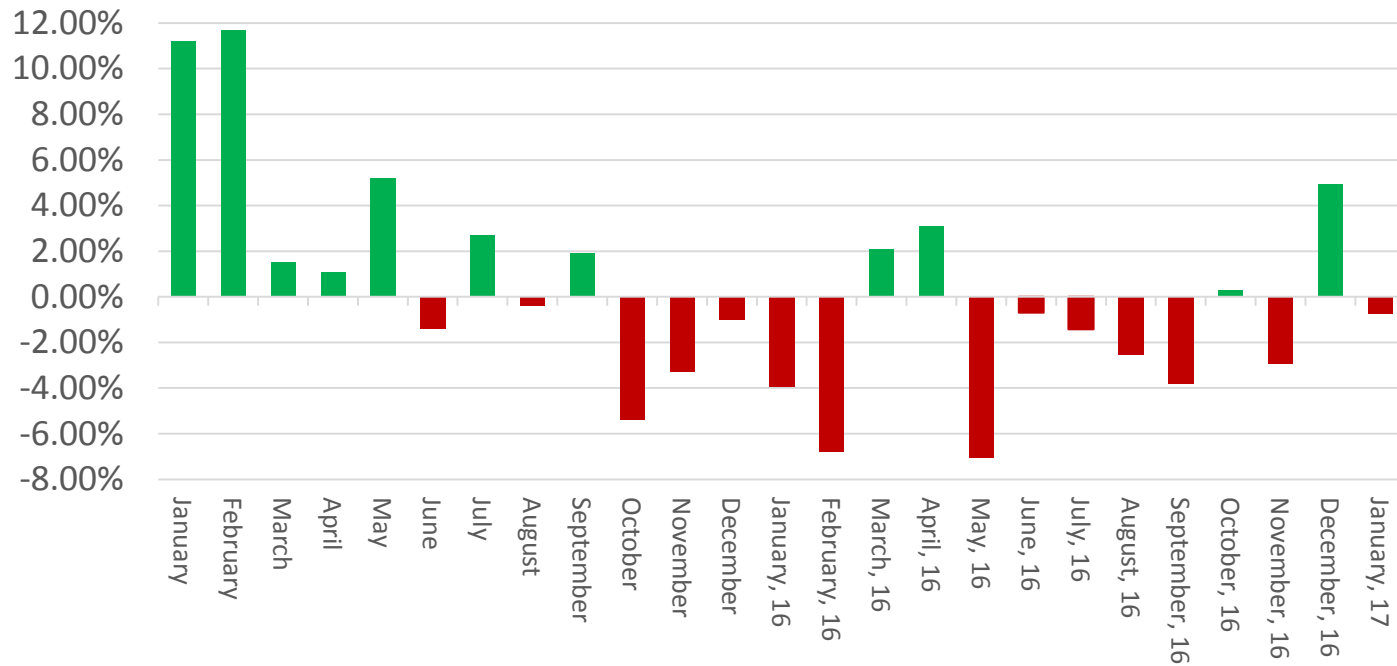
- Aggregate spending is different
 - Senate spends \$1.3 billion less than available
 - House spends \$4.0 billion more than available
- Medicaid spending is different
 - House funds caseload growth; Senate does not
 - Neither funds other Medicaid cost drivers
- Neither budget addresses TRS-Care (\$1.03 billion shortfall)
- Senate includes a 1.5% across the board cut in general revenue, except for FSP
- Supplemental appropriation needs not included

Proposed State Budgets

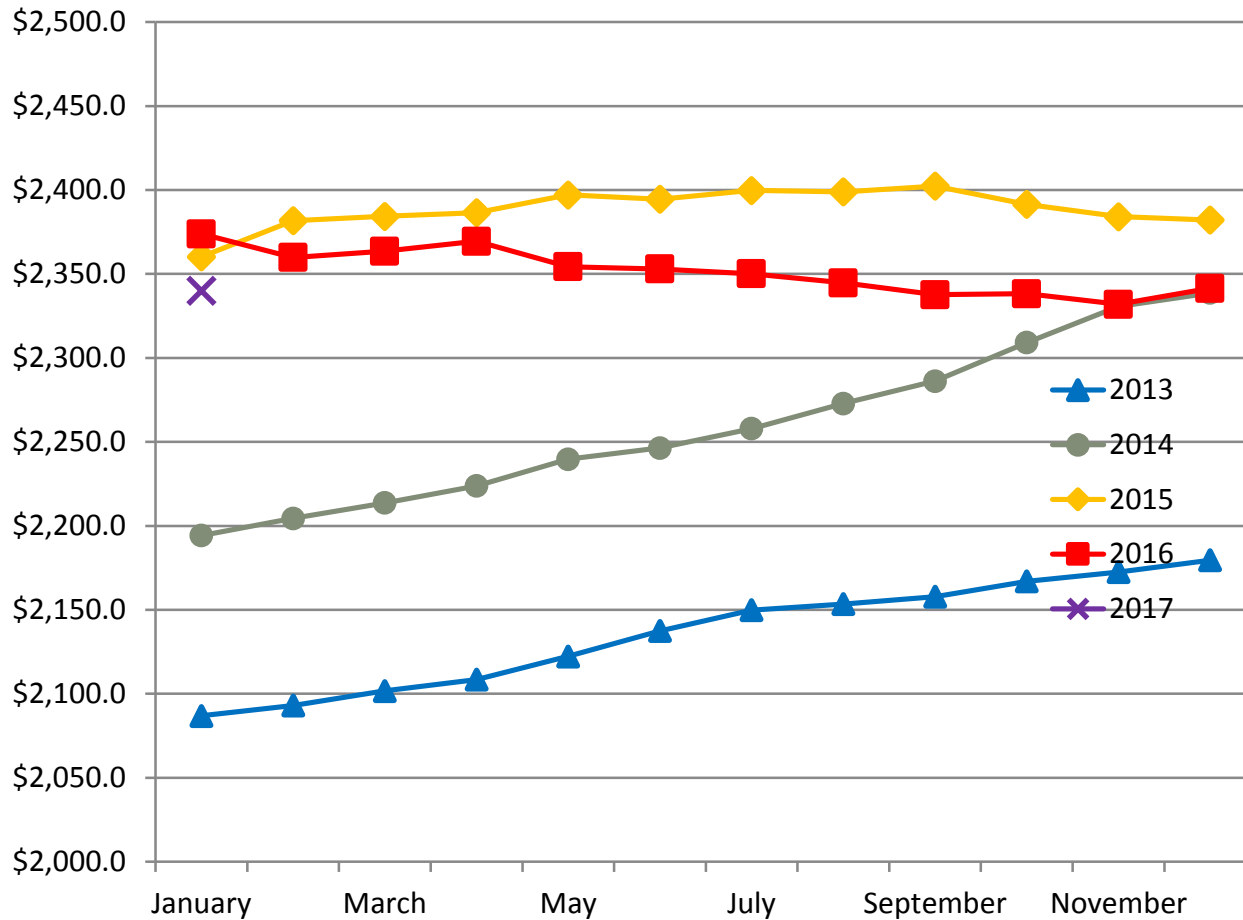
- Both bills increase funding for Child Protective Services by \$310 million
- Senate reduces higher education special items by \$800 million
- Senate puts in an extra \$140 million for border security

Recent Sales Tax Growth

Sales Tax Revenue Growth Last 25 Months

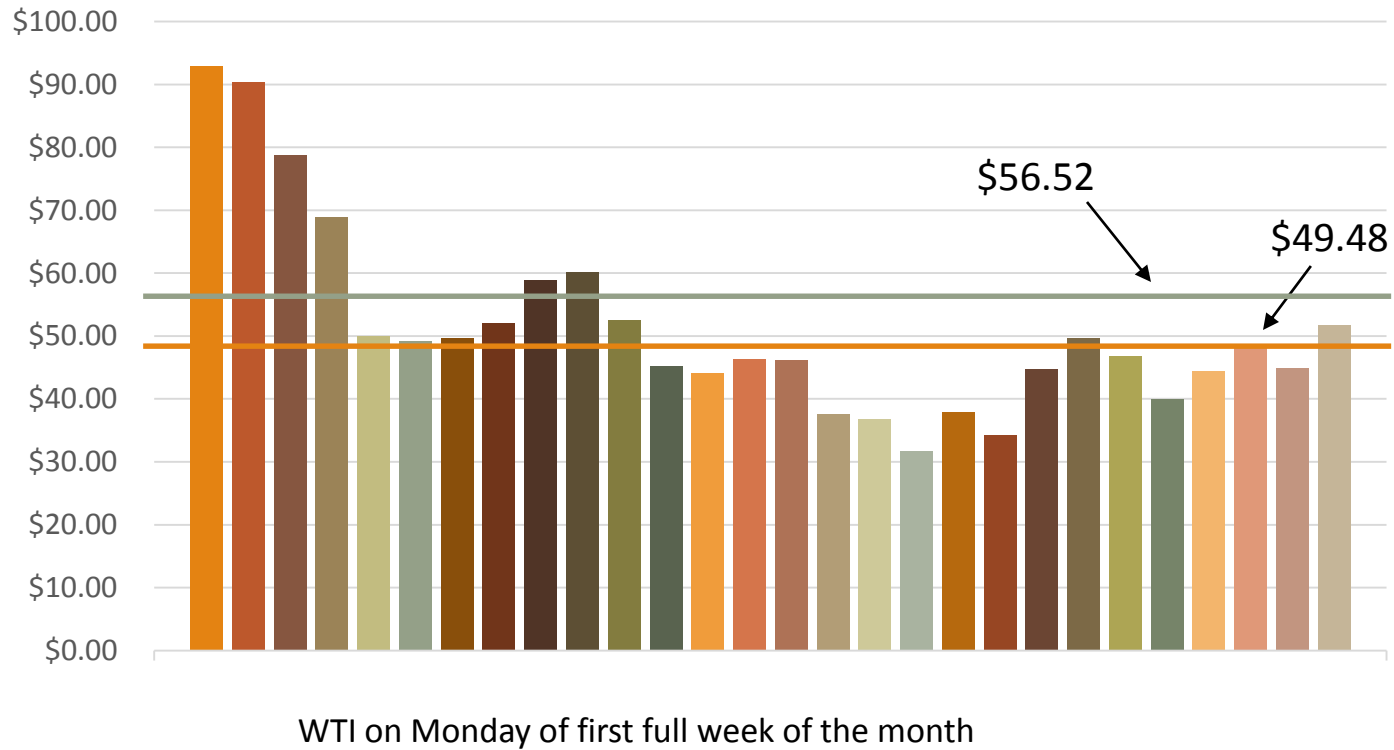


1-Year Moving Average Monthly Sales Tax Collections



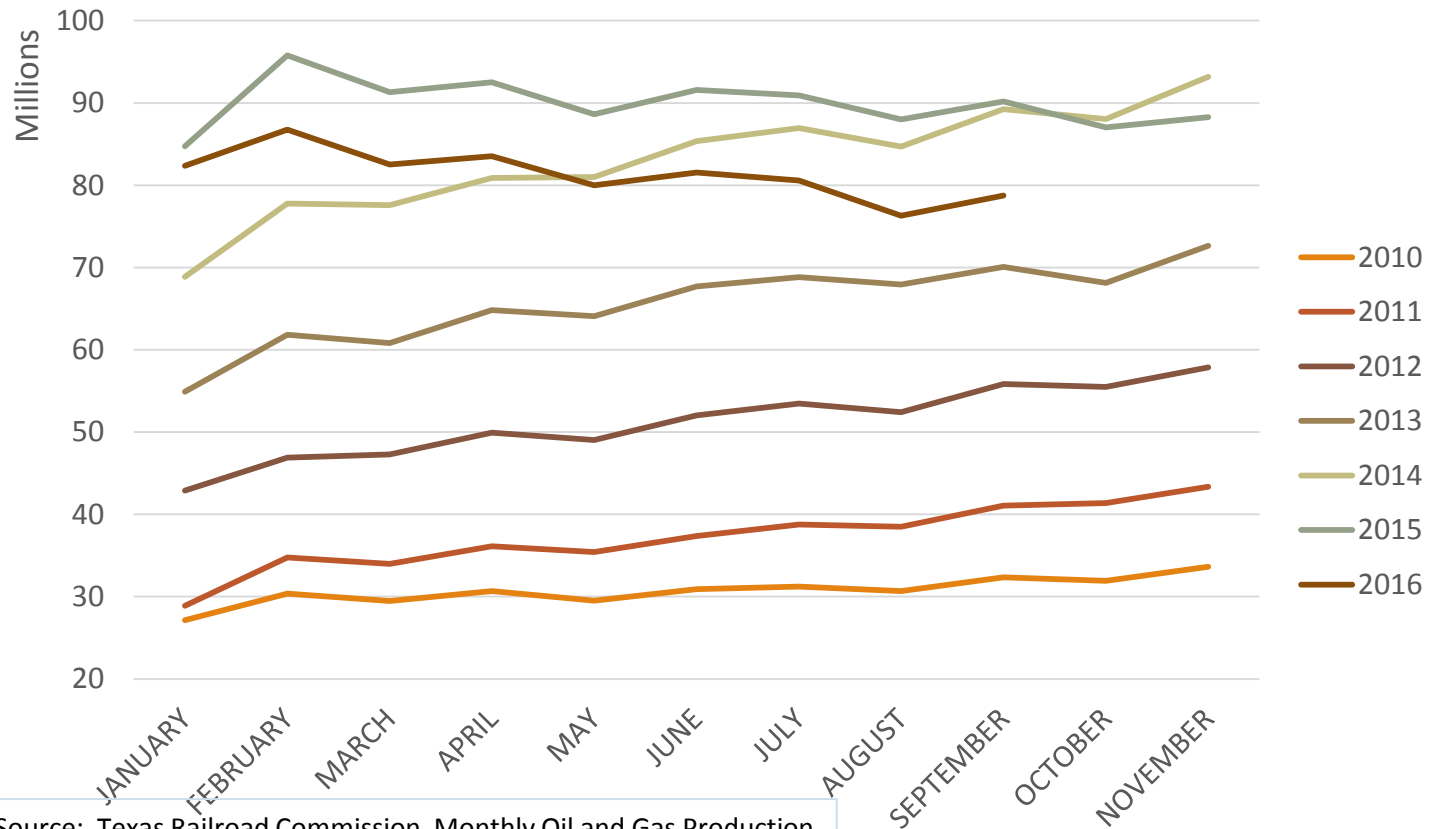
Oil Price

Price of Oil per Barrel - Last 28 Months



Oil Production

Texas Monthly Barrels of Crude Oil Production



Source: Texas Railroad Commission, Monthly Oil and Gas Production

Revenue Performance FY 2017 – as of January

	New Biennial Revenue Estimate Projected Growth*	Year – to – Date Growth
Sales Tax	1.99%	- 0.47%
Motor Vehicle Tax	2.02%	0.48%
Natural Gas Tax	31.75%	- 2.22%
Oil Production Tax	9.75%	3.54%
Alcoholic Beverage Tax	4.02%	2.69%
Cigarette and Tobacco	10.74%	1.42%
Motor Fuels Taxes	2.19%	2.50%

* Growth rate needed to reach FY 2017 revenue projection

Other Potential Revenue Sources

- **Rainy Day Fund**
 - \$11.9 billion at the end of 2018-19 biennium,
 - Typically used for one-time funding measures.
 - The most recent appropriations from the Rainy Day Fund was in 2013 for \$3.9 billion (\$1.75 billion to restore the FSP payment delay; \$2 billion for water development projects).
- **Sales Tax Diversion to Highway Fund**
 - Diverts up to \$2.5 billion of sales tax revenue per year to Highway Fund
 - Two-thirds vote of each chamber to decrease the transfer by 50%
- **FSP August Payment Delay**
 - Projected **\$1.5 billion??** in one-time savings to the state

FSP Proposed Budgets

Items	2016-17 Biennium	Senate Proposed	House Proposed
All Funds	\$54.72b	\$55.01b	\$56.50b*
General Fund	\$37.65b	\$36.17b	\$37.67b*
Recapture	\$3.46b	\$4.59b	\$4.59b
Austin Yield	\$74.28/\$77.53	\$99.85/\$106.37	\$99.85/\$106.37
Basic Allotment	\$5,140	\$5,140	\$5,140

*House has contingency rider for additional \$1.47 billion for FSP, Senate does not.

House FSP Funding Increase?

72. Contingent Appropriation for School Finance Legislation. In addition to amounts appropriated above, and contingent on the enactment of legislation to reform the school finance system, the Texas Education Agency is appropriated an additional **\$1,470,200,000**, out of Foundation School Fund No. 193 in the 2018-19 biennium to be allocated to school districts and charter schools for the purposes of **improving equity, reducing recapture, and increasing the state share of the Foundation School Program.** The sum-certain appropriation for the Foundation School Program as identified in Rider 3, Foundation School Program Funding shall be increased commensurately.

Major Cost Drivers

- Reductions in state aid due to property value growth approximately **\$3.6 billion**
- Additional revenue resulting from projected increases in recapture payments approximately **\$1.1 billion**
- Savings due to the expiration ASATR estimated **\$600 million**
- Projected enrollment growth biennial cost approximately **\$2.7 billion**
- Increase Austin yield, settle-up, other adjustments estimated **\$1.5 billion**

Property Value Concerns

- Budget Estimates premised on 6.60% taxable value increase in tax year 2016
 - Tax year 2017 growth of 5.85%
 - Tax year 2018 growth of 4.89%
- Actual 2016 Comptroller study growth rate 5.05%

Other Budget Items of Interest

Item	2016-17 Biennium	Senate Proposed	House Proposed
NIFA	\$23.75m/yr	\$23.75m/yr	\$23.75m/yr
Instructional Facilities Allotment	\$55m (FY 17)	No Funding	No Funding
Instructional Materials Allotment	\$1.16b	\$1.1b	\$1.21b
Student Success Initiative	\$31.7m	No Funding	\$31.7m
Supplemental Funding PK	\$30.0m	\$30.0m	\$146.9m
High Quality PK	\$118m	\$150m	No Funding

Pre-Kindergarten Funding

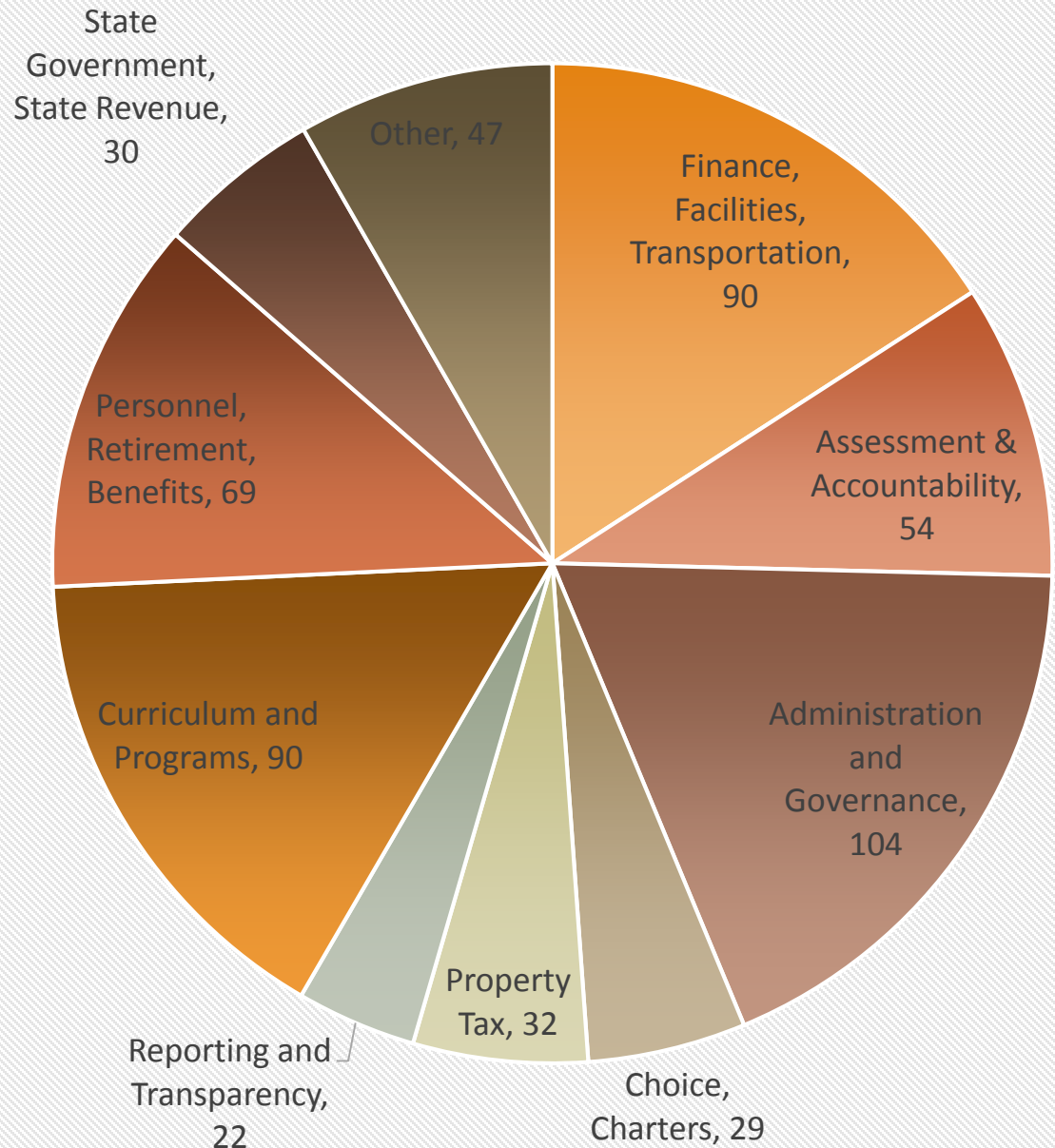
- HB 1 no longer funds the High Quality Pre-Kindergarten program
- HB 1 uses most of the funding (\$116.9) million to increase the Supplemental Funding for Pre-Kindergarten program.
 - The state provided \$30 million for the Supplemental Funding Pre-Kindergarten program in the 2016-17 biennium.
 - Approximately \$153/ADA for the 2016-17 school year
- SB 1 splits the \$150 million High Quality Pre-Kindergarten funding over a two year-period, resulting in a \$43 million decrease per year compared to the one-time \$118 million funding level for the 2016-17 school year

Legislative Stats

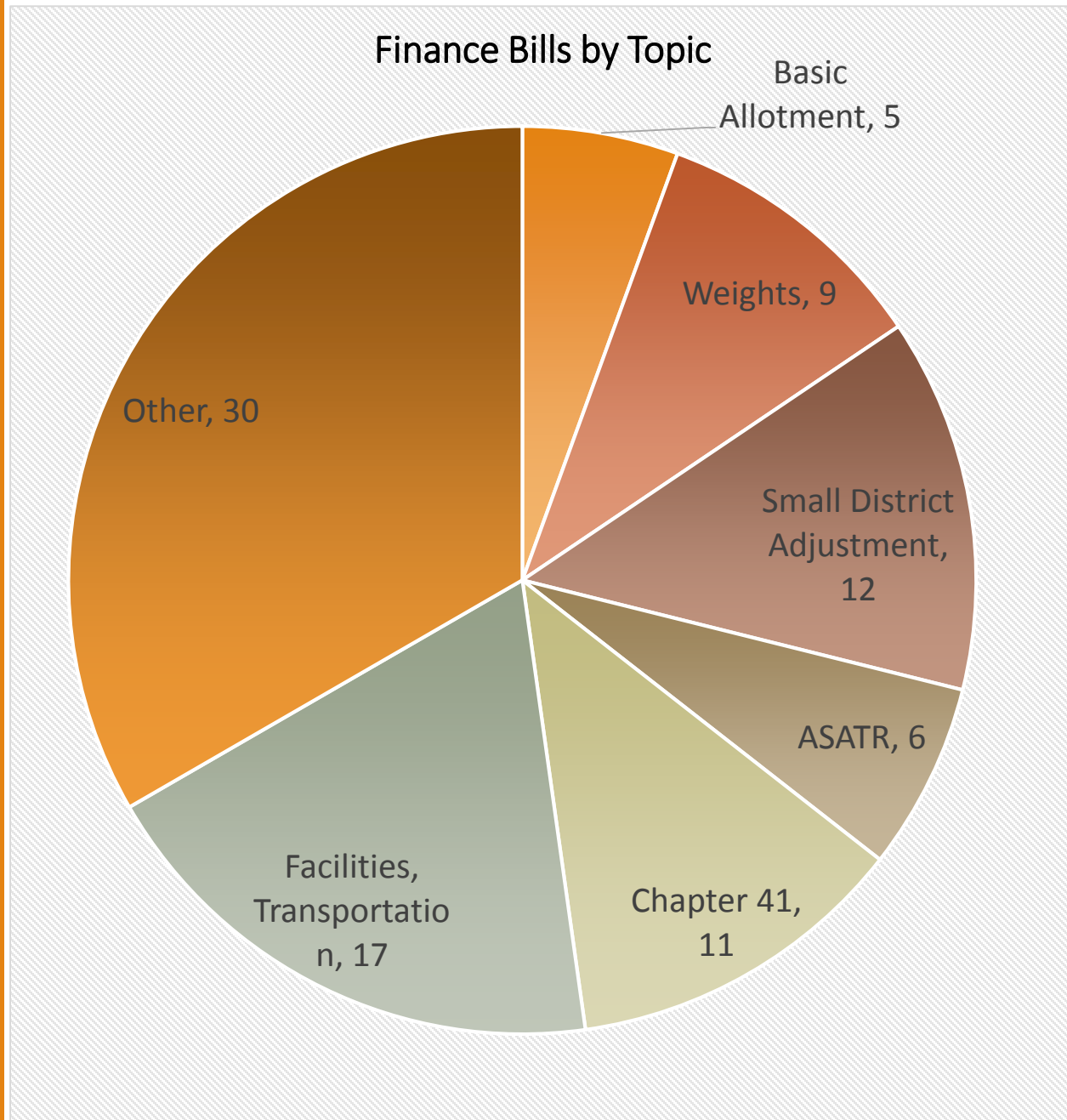
3,406 bills filed

Moak Casey tracking 567

Tracked Bills by Topic



Finance Bills



Small District Adjustment

- For districts > 300 square miles,

$$\text{Adj. Allotment} = (1 + ((1600 - \text{ADA}) \times .0004)) \times \text{ABA}$$

- For districts < 300 square miles,

$$\text{Adj. Allotment} = (1 + ((1600 - \text{ADA}) \times .00025)) \times \text{ABA}$$

- Penalty aspect for those less than 300 SQM
- Cost to fix about \$250 million per year

Property Value Decline

- Almost 300 districts experienced a rapid decline in 2015-2016 and 2016-2017 property values
- Provision in the Texas Education Code to assist districts that experience four percent or more property value loss in one year
- Provision has not received an appropriation since 2011
- United ISD working with a coalition of districts to push for appropriation in the supplemental budget this session
- Initial estimate that appropriation needed is \$99 million to help districts with 2016-2017 property value declines

The Houston Issue

- Original Election to authorize recapture failed
 - TEA's options limited to detachment/annexation or consolidation
 - **HISD Board calls for new election on May 6, 2017.**
- Legislative solutions unclear
 - Adjustments to formulas would also impact recapture for other districts
 - Houston's list includes optional homestead, transportation allotment, CEI impact in WADA
 - Increasing the equalized wealth level (linked to basic allotment) could cost billions per year

TEA Change in LOHE Interpretation

- What does this mean and what does it cost?

February 1, 2017

TO THE ADMINISTRATOR ADDRESSED (TAA):

Subject: Recognition of property value loss for 50 percent of the local optional homestead exemption (LOHE) for the 2016-17 school year (and state fiscal year (FY) 2017)

This letter addresses a change in practice that will impact the calculation of recapture amounts owed under Chapter 41, Texas Education Code (TEC) and facilities funding allotments under Chapter 46, TEC. Previously, TEA only recognized 50 percent of the value loss due to the LOHE for purposes of calculating recapture under Chapter 41 and facilities funding allotments under Chapter 46 when there was a specific appropriation or a surplus in the FSP. Starting with the 2016-17 school year (and state FY2017), TEA will recognize 50 percent of the value loss due to the LOHE for purposes of calculating recapture under Chapter 41 and facilities funding allotments under Chapter 46, regardless of the existence of an appropriation or a surplus in the FSP.

TEA will recalculate recapture amounts owed and Instructional Facilities and Existing Debt Allotments (IFA and EDA) for the 2016-17 school year (and state FY2017) as soon as possible. **This change is effective for the 2016-17 school year (and state FY2017) only and forward and will not be applied retroactively to prior fiscal years.** If you have any questions about this letter, please contact a state funding consultant at (512) 463-9238.

Regards,

Leo Lopez, RTSBA
Associate Commissioner for School Finance /
Chief School Finance Officer

Senate Bill 3: Education Savings Accounts

Spending accounts for private or home schoolers

Eligible Students:

- Attended a public school during the entire preceding academic year
- Or any student born after Sept. 1, 2012

Allowable Expenditures:

- Tuition and fees at a private school, postsecondary educational institution, or online school
- Homeschooling-type expenses (e.g., curriculum or textbooks)
- Tutoring
- Therapy for special education students
- Technology like computers or software (up to 10% of ESA amount)
- Norm-referenced tests
- NOT transportation

Eligibility Group	Gross ESA Entitlement
Exceeds 200% of Income Guidelines for Free and Reduced Price Lunch	60% State Average M&O Expenditures per student in ADA for the Preceding Year
Meets or Below 200% Income Guidelines for Free and Reduced Price Lunch	75% State Average M&O Expenditures per student in ADA for the Preceding Year
Funding for a Disabled Child (No income requirement)	90% State Average M&O Expenditures per student in ADA for the Preceding Year

Senate Bill 3: Tax-Credit Scholarships

Financial assistance for public and private school students funded by contributions made by organizations in exchange for insurance premium taxes exemption

Eligible Students must:

- Have a disability, or
- Have attended public for the entire previous year, be the sibling of an eligible program participant, or start school in Texas for the first time

Allowable Expenditures:

- Facility fees, textbooks, school supplies, tutoring, academic after-school programs, school or lab fees, and transportation costs
- Can be combined with an ESA for some students

Eligibility Group	Scholarship Entitlement
Students with a Disability, or Families with Incomes at or below 175% Income Guidelines for Free and Reduced Price Lunch	75% State Average M&O Expenditures per student in ADA for the Preceding Year
Other Qualifying Students – in foster care or institutional care; child of active duty military or Families with Income below 200% Income Guidelines for Free and Reduced Price Lunch	50% State Average M&O Expenditures per student in ADA for the Preceding Year

Senate Bill 3: Oversight and Public Schools

- **Academic Accountability Requirements:** ESA program requires none; Scholarship program requires schools to administer a norm-referenced test
- **Attendance or Grade-level Completion Requirements:** None
- **Financial Accountability:** ESA can be audited; it is unclear what expenses parents will have to report for either program

Senate Bill 3: Oversight and Public Schools

- **Public School Subsidy:** Schools receive half of the difference between the ESA amount and the statewide average cost per student; for the Scholarship program, schools can keep a student on WADA rolls for Chapter 41 purposes; subsidies for one year only

Senate Bill 3: Oversight and Public Schools

- **Students with Disabilities:** ESA—no mention of IDEA rights; Scholarship program—public schools must notify parents alerting them that qualifying nonpublic schools are not subject to same laws
- **Parent Responsibility:** Parents must notify state when students graduate or re-enroll in public school

Senate Finance Workgroup

- Revenue neutral
- Heard major associations and organizations plans (Equity Center, TASB, TSA, Fast-Growth)

House Public Education

- Tuesday meeting on school finance



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